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**AN EXPLORATORY STUDY ON GST COMPLIANCE TIME COSTS OF SMEs IN  
THE NORTHERN REGION OF MALAYSIA**

**BY**

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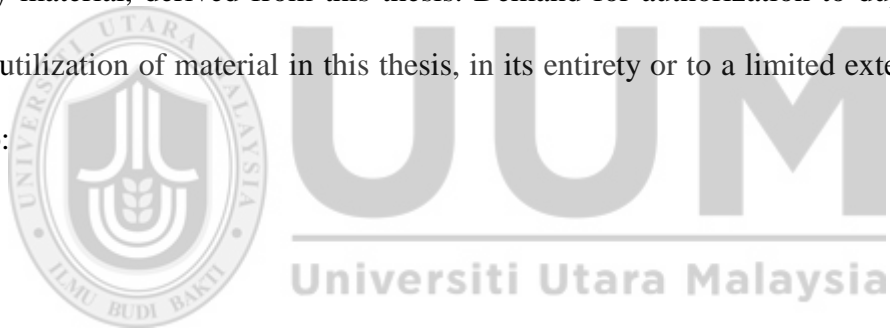


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Degree of Master of Science (International Accounting)  
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## **ABSTRACT**

The Malaysia government is always committed in making tax system more effective, efficient, comprehensive, transparent, fair and friendly to users. Thus goods and services tax system (GST) has been implemented in Malaysia since 1 April 2015 to replace the former sales and services tax (SST) system. As such, procedural issues and compliance cost associated with the GST system are of significant interest to the taxpayers. This study is conducted one year after GST system implementation which considered as at the early stage of GST implementation. It focuses on the compliance time cost in terms of the time spent by the Small and Medium Enterprises (SMEs). The respondents of this study are the SMEs in the Northern Region of Malaysia i.e. Penang, Kedah, and Perlis. The result reveals that record keeping contributes to the major increase by percentage in GST compliance time costs followed by learning new GST systems, answering RMCD queries, claiming GST refund and GST payment process. This study also discovers that the demographic background of the SMEs indicates different of opinion in compliance time costs. While GST law complexity and time frequency of GST filing are among the main causes for the increase in compliance time costs of GST for SMEs under this study.

**Key words: Goods and Services Tax (GST), Compliance Cost, Small and Medium Enterprises (SMEs) and Tax System**

## **ABSTRAK**

Kerajaan Malaysia sentiasa komited untuk menjadikan sistem cukai lebih berkesan, cekap, menyeluruh, telus, adil dan mesra pengguna. Oleh itu, cukai barang dan perkhidmatan (CBP) telah dilaksanakan semenjak 1 April 2015 bagi menggantikan cukai jualan dan perkhidmatan (SST). Dengan itu, isu-isu prosedur dan kos pematuhan berkaitan dengan sistem CBP memberi kesan yang signifikan kepada pembayar cukai. Kajian ini dijalankan setahun selepas sistem CBP dilaksanakan yang dianggap sebagai peringkat awal pelaksanaan CBP. Ia bertumpu kepada kos pematuhan dari segi masa yang digunakan oleh perusahaan kecil dan sederhana (PKS). Responden-responden dalam kajian ini adalah PKS di kawasan utara Malaysia iaitu Pulau Pinang, Kedah, dan Perlis. Hasil kajian menunjukkan bahawa penyimpanan rekod merupakan penyumbang utama terhadap peningkatan kos masa pematuhan secara peratusan dalam CBP diikuti oleh mempelajari sistem CBP yang baru, menjawab pertanyaan JKDM, menuntut pulangan balik CBP dan proses pembayaran CBP. Kajian ini juga mendapati latar belakang demografi PKS menunjukkan perbezaan pandangan ke atas kos masa pematuhan. Manakala kerumitan undang-undang GST dan kekerapan masa memfail GST adalah antara sebab-sebab utama bagi peningkatan kos masa pematuhan GST oleh PKS di bawah kajian ini.

**Kata kunci: Sistem Cukai Barang dan Perkhidmatan (CBP), Kos Pematuhan, Perusahaan Kecil dan Sederhana (PKS) dan Sistem Cukai**

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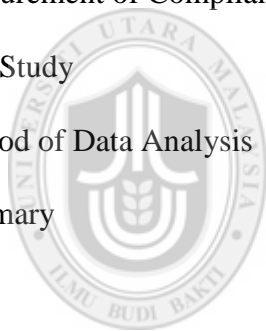
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## LIST OF ABBREVIATIONS

Abbreviations	Descriptions of Abbreviations
CFIB	Canadian Federation of Independent Business
CPA	Certified Public Accountants
FBT	Fringe Benefit Tax
GDP	Gross Domestic Product
GST	Goods and Services Tax
IDR	Indonesia Rupiah
IFC	International Finance Corporation
IRBM	Inland Revenue Board of Malaysia
NZ	New Zealand
MICPA	Malaysia Institute of Certified Public Accountants
OECD	Organisations for Economic Co-operation Developments
PAYE	Pay As You Earn
RM	Ringgit Malaysia
RMCD	Royal Malaysian Customs Department
RPGT	Real Property Gains Tax
SARS	South African Revenue Service
SST	Sales and Services Tax
SMEs	Small and Medium Enterprise
SPSS	Statistical Package for the Social Sciences
SST	Sales and Services Tax
VAT	Value Added Tax
UK	United Kingdom
US	United States

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## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the Study**

Generally, tax is one of the important sources of income for developed and developing countries including Malaysia. Bhatia (2009) stated that the collection of tax as a revenue by the government will be returned as benefits to the public in the form of infrastructural facilities and development of public utilities. Malaysia's tax system is divided into two categories which are direct and indirect taxes. Under direct taxes, taxpayers have the responsibility to pay tax directly to the tax authority. Examples of direct taxes include income taxes, real property gains tax (RPGT) and stamp duty. Direct taxes are administered by the Inland Revenue Board of Malaysia (IRBM). Whilst, indirect taxes are collected by third party, such as businesses registered with Royal Malaysian Customs Department (RMCD). The examples of indirect taxes are export duty, import duty, and goods and services tax (GST). Indirect taxes are administered by the RMCD.

In order to generate revenue for a country, taxation is one of the main mechanisms. The Malaysia government is always committed in making tax system more effective, efficient, comprehensive, transparent, fair, and friendly. In order to achieve an efficient tax system, Goods and Services Tax (GST) was implemented on 1 April 2015 ([gst.customs.gov.my](http://gst.customs.gov.my)). The GST is a replacement for sales and service tax (SST) because the Malaysian government aware that GST collections is able to cover the fiscal deficit as a result from reduction in oil prices. In addition, the purposes of implementing GST include to lower cost of doing business, improved standard of living, equality and fairness in tax system, increases global competitiveness, fair pricing to the consumers, and so forth ([gst.customs.gov.my](http://gst.customs.gov.my)). Within less than a year of implementation the GST collection is proved to successfully increase Malaysian revenue ([www.thestar.com.my](http://www.thestar.com.my)). However, since its implementation, GST is

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